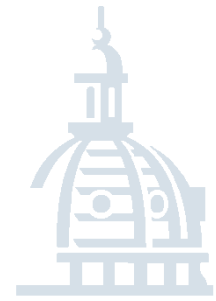


Fiscal Note

Fiscal Services Division



HF 203 – Primary Road System Federal Fund Swap (LSB1608HV)

Analyst: Michael Guanci (Phone: (515)725-1286) (michael.guanci@legis.iowa.gov)

Fiscal Note Version – New

Description

House File 203 authorizes the Iowa Transportation Commission, after consultation with stakeholders, to periodically allocate Primary Road Fund (PRF) moneys in exchange for federal aid funds that would otherwise be allocated to counties and cities. This bill will apply to federal funds provided by the [Surface Transportation Block Grant](#) (STBG) Program.

Background

The federal government allocates STBG Program funds to the Iowa Department of Transportation (DOT). Based upon requirements set out in the federal [Fixing America's Surface Transportation Act](#) (FAST) and by the Transportation Commission, funds are apportioned to DOT projects and local authorities. Moneys from the STBG Program provide flexible funding for bridge, highway, and public road projects; pedestrian and bicycle infrastructure; and transit capital projects. A majority of STBG Program funds are allocated for road and bridge projects, and are therefore eligible for exchange.

Several states have implemented programs to swap primary road funds with local authorities based upon varying exchange rates. **Table 1** provides data on several states that have a fully implemented program, and their current exchange rates. House File 203 does not mandate an exchange rate; however, the DOT is estimating the rate of exchange may be 1:1.

TABLE 1

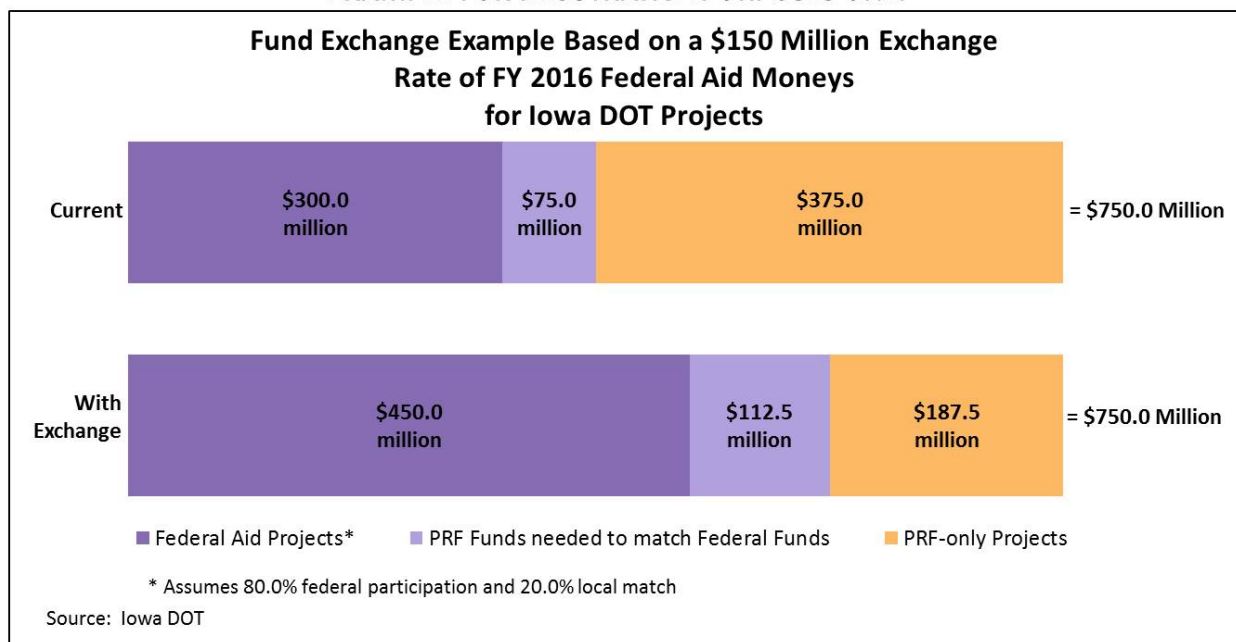
Sample of Federal Road Fund Swap Programs	
State	Exchange Rate per Dollar of Federal Funds
Indiana	\$ 0.75
Kansas	0.90
Minnesota*	1.00
Nebraska	0.90
Ohio	0.80
Oregon	0.94
South Dakota	0.90
* Minnesota's program only swaps federal funds between local entities and not between state and local entities.	

Under federal law, [23 U.S.C. §133](#) regulates how federal moneys under the STBG Program may be spent. Most federal aid projects require local authorities to match 20.0% of the construction costs per project. The remaining 80.0% of the project's costs, minus design, are reimbursed by the STBG Program per [23 U.S.C. §120](#). Other regulations concerning wages,

materials, inspections, and environmental reviews for each project may impact costs on federal aid projects for local authorities.

Any reallocation of federal aid funds by the DOT will reduce funding available for PRF-only projects. This reduction is due to the 1:1 exchange of funds with local entities and federal matching requirements. **Chart 1** provides a side-by-side comparison done by the DOT to illustrate the impact of \$150.0 million in federal aid moneys suballocated to local authorities under the STBG Program being reallocated under an exchange program.

CHART 1
EXAMPLE FOR ILLUSTRATIVE PURPOSES ONLY



The DOT is required to serve as both an advisor and monitor of federal aid transportation projects. Refer to the [FHWA/Iowa DOT Stewardship and Oversight Agreement](#) for further information. In FY 2016, the DOT oversaw the authorization of 255 local and 112 state federal aid projects. These numbers exclude projects under DOT oversight that:

- Were let in previous fiscal years that are under construction.
- Are still going through the audit/financial accounting closure process.
- Are currently being developed but were not let during the year.

Assumptions

- The amount of PRF moneys that the Transportation Commission may exchange with local authorities for federal aid dollars is unknown. The total amount eligible in FY 2017 for exchange is estimated to be \$144.9 million.
- Project cost reductions to local governments are unknown. Local authorities may experience a decrease in costs associated with projects funded by the Secondary Road Fund or Cities Street Construction Fund. This decrease may result from a reduction in federal regulations and federal match requirements.
- The number of DOT projects that may use federal aid moneys is unknown. The DOT may experience some cost increases in federal aid projects. Increases may be due to more PRF moneys being used to match federal aid moneys, and other requirements or regulations mandated by the STBG Program.
 - The DOT may experience a decrease in administrative costs associated with the reduction oversight for a large number of local federal aid projects.

Fiscal Impact

The fiscal impact of House File 203 cannot be determined at this time. Any exchange of PRF moneys for federal aid moneys will require the approval of the Transportation Commission after consultation with stakeholders representing local authorities.

Funding exchanges may decrease the number of local projects under federal regulation, and increase the number of DOT projects under federal regulation. However, the fiscal impact of the shift is unknown.

Federal aid funds exchanged will require additional PRF moneys from the DOT to match for use in federal aid projects funded by the DOT. Increases in costs to the Department to match federal moneys, or decreases in administrative costs overseeing federal projects, cannot be determined without consideration of the Transportation Commission's decisions.

Sources

Iowa Department of Transportation
Kansas Department of Transportation
National Association of Counties

/s/ Holly M. Lyons

February 7, 2017

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
